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ABSTRACT

The book is presented as an aid to those who have decided to invest in, or who are seriously interested in investigating, a franchise opportunity. The material presented is an index of basic information a person should have about a particular franchise to enable him to make a valid determination as to whether or not a specific franchise is the right one for him and whether or not the chances for returns both in terms of money and future are there. The questions are presented first with discussion, then repeated in a questionnaire format which may be used to profile and evaluate the franchises he is investigating. Financial and legal questions are raised, questions about training and marketing, and about home office support. The 10 pages of appendixes include information about the Federal Trade Commission and franchising, the International Franchise Association, the Small Business Administration, and a listing of sources of additional information. (Author/AJ)

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Small Business Management Series No. 35

FRANCHISE INDEX/PROFILE

A Franchise Evaluation Process

By
C.R. Stigelman

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ABOUT THE AUTHOR

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CHAPTER 1

USING THE INDEX/ PROFILE

Before You Start

This book is not intended to convince anyone to acquire a franchise. It is presented as an aid to those who have decided to invest in, or who are seriously interested in investigating, one of the many franchise opportunities available today. The material presented is an index of basic information a person should have about a particular franchise to enable him to make a valid determination as to whether or not a specific franchise is the right one for him and whether or not the chances for returns both in terms of money and future are there. The section, in a questionnaire format, should be used to profile and evaluate the franchises you are investigating.

Franchising is a modern term for a more than fifty year old method of wholesale and retail product distribution. Although most of the franchise opportunities now in business have been started since 1954, franchising has been around for over a half of a century. It started with the automobile manufacturers, brewers, soft drink bottlers and oil companies. Now it has

expanded to almost every kind of product or service, including business services, food, education, clothing, pets, lodging, etc.

In the past several years franchise companies have received much interest from Wall Street, not only because of the performance of franchise stocks, but also because of the entrance of major blue chip companies into the franchise field. Recently, however, some of this has worn off because a change in franchise accounting procedures has trimmed profits.

Franchising can be an answer for the man who wants to go into business for himself. One of the biggest mistakes you can make, however, is to be in a hurry to get into business. Therefore, if you shortcut the information gathering and evaluation programs outlined in this book, you might neglect to take a look at other franchises that are perhaps better and more suitable than the one selected, or you might be "pressured" into a franchise that is not right for you.

Although most franchises are managed by reputable businessmen, you should keep in mind that some may be poorly managed and financially weak. Also, as in all industries, there are those of questionable practices and those who have controls and restrictions that are so one sided (in their favor) that they are unreasonable. This book is intended to guide your franchise investigation in such a way that you can avoid involvement with those who are not reputable.

Before getting into a thorough evaluation of any franchise, here is a quick test that can save you much time, money and aggravation.

1. Were you promised high profits in exchange for minimum effort?

2. Did the representative pressure you to sign a contract immediately?

3. Were you told that this was your last chance to sign and that if you did not, the opportunity would no longer be available?

4. Did the representative refuse to answer any questions or did he refuse to give specific answers?

5. Were you told of services such as training, management assistance, etc., without specific examples of each?

6. Was the representative reluctant to give you a responsible list of references?

7. Did you feel that the representative was more interested in selling you a franchise than he was in your being successful in business?

8. Did the representative try to discourage you from having your attorney review the contract before you signed it?

In addition, it might be wise for you to call or visit one of the operating franchises and talk to the owner about his business and find out:

1. Does the franchisor deliver what he promises?

2. Based on the franchisee's experience with the franchisor, does he consider him competant in the business of the franchise and does he consider the company itself to be well managed and responsive to franchisee's needs?

If the answers to questions 1–8 are *NO*, and if you are satisfied with your discussion with the franchisee, then proceeding with the FRANCHISE INDEX PROFILE is the next step in evaluating the franchise opportunity you are considering.

How To Use The Franchise Index/Profile

This book has been written in outline form so that it is easy to relate information from the index to the profile and vice versa. The basis of the book is a series of questions set up in major interest categories building one on the other so that at the end of the question process you will have a fairly complete picture of the franchise. You should have obtained a feel as to whether or not it is the right franchise for you. Also, in the process you will have weeded out the bad risks from the field of prospects.

Evaluating a franchise in the manner outlined in this book will take time and patience but results will make it worthwhile. If the franchisor refuses, without good reason, to go along with you in providing the information, be skeptical of his franchise. On the other hand it is easy to get tired along the way and decide to shortcut the questionnaire. A complete investigation of the business is the best way to insure against failure or getting taken by an unethical company. The money you will invest in a franchise has resulted from hard work . . . isn't it only proper to take time to determine the best way to use it?

In Chapter 2, The Franchise Index, you will find a series of questions along with an explanation of what the answer should be and what it means or how to determine what the answer should be for the franchise you are interested in.

For example, question A–1–a deals with the reputation of the product or service sold by the franchisee. The logical answer is . . . Yes, I only want to deal in a business selling reputable products or services. How do you know without checking that this is the case. Naturally the franchisor will say his product or service is reputable; but is he telling you the truth? The discussion of this question tells you how to find out the answer.

Did you know that many franchises are not exclusive? In fact you might find yourself competing with the franchisor himself who is selling direct in a territory that you thought was yours exclusively. Question A–9–a and discussion tells you how to find this out.

In Chapter 3, the questions are repeated, this time, however, without the discussion section. Instead there are blanks to be filled in. When completed, this forms the profile of the franchise you are evaluating. It would be beneficial if you make your decisions as to what you want in a franchise as you read through this chapter. You can later use it as a check when you get into evaluating franchise prospects. You will find that it will also force you to make some decisions that up until now you have avoided.

For example, Question A–2–b deals with your time. Do you plan to spend full or part time on the franchise? This is a basic decision you must make before becoming serious about any franchise.

Question 4c asks, "Does the forecast of income provide for your personal goals?" Here the answer includes an evaluation of the family budget plus the amount of money required to run the business. This determines the income that must be generated from the franchise.

Also, you should set up a file for each franchise you evaluate and keep in it all materials you receive from the franchisor, copies of letters and replies used in checking, and a written diary of all discussions you have with the franchisor. In the dairy make sure each entry is dated and the names of all persons in the meeting noted. Also, each diary entry should record the purpose of the discussion, the information obtained, and any action to be taken.

CHAPTER 2

FRANCHISE INDEX

A. FRANCHISE—GENERAL

1. IS THE PRODUCT OR SERVICE

a. *Considered reputable*—What is the reputation of the company and its products or services. Remember, a customer will buy the first time on the promise of quality, but will not reorder if he does not get what was promised. To get the answer to this question talk to people who are familiar with the product, check it out yourself, and write to the Better Business Bureau in your city and in the city of the franchise headquarters. Also write to the National Better Business Bureau, 230 Park Avenue, New York, N.Y. 10017. In your letter mention the franchise and address plus parent company and address if known. Ask for a report on the company.

b. *Part of a growing market*—The answer does not always have to be yes, since many markets are on the borderline between slow growth and "taking off." What you have to watch out for here is a declining market. The best place to check for information on growth or near growth is request

marketing data from the franchisor, check with your broker, write to the trade magazine covering the market in question, check it out at your local business library, and discuss it with your regional Small Business Administration office.

c. *Needed in your area*—It is very important that you get a yes here. A snow-ski shop franchise would not go over too well in Florida. Make sure that the products or services have year round appeal in your area as well as being needed.

d. *Of interest to you*—Only you can answer this, and it is important since investment in a franchise should be viewed as a lifetime job. For example, if you enjoy repairing automobiles, a related franchise such as a service station or a muffler shop should be of interest. If you are a teacher, possibly a secretarial school or home study school franchise would be of interest.

e. *Safe, protected, and guaranteed*—If a product rather than a service is involved be sure that it is safe, that it meets quality standards, and that there are no restrictions upon its use. Is the product protected by patent or liability insurance and is this same protection afforded to you as a franchisee? If a gurantee is involved, obtain a copy and be sure of your responsibilities and obligations as a franchisee.

f. *Carry the name of a well-known personality*—This can be good or bad. Assuming that the personality has and maintains a good reputation, it is important that he or she have an actual investment as opposed to being a figure-head and make substantial personal contributions of time and effort to promote the franchise to the mutual benefit of all franchisees. Do not be fooled by a glamour name. Make sure that the basic franchise is sound with or without the prominent name.

2. IS THE FRANCHISE

a. *Local, regional, national or international*—This answer is for information but does have a direct relationship to the franchise fee and also to the future. Chances are that a franchise that is now only local or regional is in the beginning or test stage and will go national once the test has proved successful. The national and international franchises are probably older and better established, also

better known. The latter point is important to you particularly if your product is a consumer one such as the fast food or motel field.

b. *Time Requirements, part- or full-time*—This depends on what you are looking for. Unfortunately, there are very few part-time franchises that are as good as they profess to be. Those that are good do involve a considerable amount of time if they are to be successful. There is no shortcut to a second income. Also it is highly doubtful that you can sit back, as some part-time franchises profess, make some mailings, and watch the money roll in. Check the part-time franchises out just as thoroughly as the full-time one. Not all of the 100 questions will apply. If you do get involved in a part-time endeavour, take a look and see whether or not it could later be expanded into a profitable full-time venture. This is a good test. Full-time franchises are what they say . . . you have no other job and therefore no other income. Make sure that you have at least 1 year or possibly 2 years personal financial reserve left after you pay the franchise fee and put capital into your business. There are some franchises, usually in the personal service field, that can be started on a part time basis with the full time situation one or two years away.

3. EXISTING FRANCHISES

a. *How long was the company in ousiness before the first franchise was awarded*—This will tell you which came first . . . the product idea or the desire to enter the franchise field. Favor should be given to the company that started before it entered the franchise business. A good example of why this is important is the value today of motel franchises, automobile dealerships, and soft drink bottlers.

b. *What date was the company founded and what date was the first franchise awarded*—Here we want to establish the period of time that the company was in business before it went the franchise route of distribution. Keep in mind that the dates you want are related to the franchise and not the parent company. In this day and age of mergers and acquisitions many major franchises are owned by major corporations. It would also be interesting to find out whether or not the original franchise is still in operation.

c. *Number in operation and geographical spread*—This will give you an idea as to the popularity of the franchise. This information coupled with the preceeding answer will give you an idea as to whether or not this is an "overnite" growth pattern or a gradual pattern. The gradual pattern tends to give more stability, that is if the rate of failure is low. You should also find out whether or not there is a geographical cluster . . . that is, are there a major number of existing franchises in one specific area; or are they evenly spread across the country. You will usually find a cluster around the home office area of the franchise. A cluster can be expected in the early stages; but, if a franchise claims to be national and if they have been in business three years or longer, the spread should be fairly even.

The franchisor should provide you with the name and address of several franchises in operation in markets like yours. For example, if your market is 60,000 in population you should compare with another 60,000 market. Call or visit these locations (more notes), at least one of which should be a relatively new franchise. Ask the questions that are of greatest concern to you. Try to get a feel as to whether or not you would like the work, could earn enough to support your family, etc.

d. *Number planned next 12 months*—Not all franchises will be able to give an answer to this question, yet it is a key factor to future growth. In some cases the attitude will be . . . just as many as we can sell. In other cases a set objective has been established. Keep in mind that part of what you pay for in the franchise fee is service, advice, and training. If the home office is not planning properly they will not be geared to give what they promise. Look for a definitive answer and ask the additional question . . . What are your plans for adding home office personnel to continue the same level of service, advice, and training for all franchises? Another way to look at future planning is to realize that as the number of franchises increases so does the national visibility, and this is as good as any advertising.

4. WHY HAVE FRANCHISES FAILED

a. *How many franchises have failed*—The number is not the most important factor unless there is a high number in

relation to the current number in operation. It would be good to find out how many of the failures were in the past 2 years. If the failure rate is high, perhaps the reasons have been corrected. If this is so, the failure rate would be clustered prior to the past 2 years.

b. *Why have franchises failed*—This is one of the most important questions that you can ask. It is also one of the most difficult for the franchisor to answer because it reflects on the franchise program. The answer to this is found in three ways. First, ask the franchisor why he thinks the franchises failed, have him list the reasons in order of importance. Then, ask for the names and addresses of franchisees who have failed. Contact them and ask the same question. Finally, check the Better Business Bureau in the city where the franchise failed and ask the same question. Check the answers, if they agree, find out from the franchisor if the reasons have been corrected. If the answers from the franchisee and franchisor do not agree, discuss them with the franchisor and find out why they do not agree. Remember, in talking to the franchisee that failed that he will probably be biased against the franchisor. On the other hand, the franchisor might lay failure at the feet of the franchisee. Use your own judgment in this case and draw your own conclusions.

5. FRANCHISE IN LOCAL MARKET AREA

a. *Has a franchise ever been awarded in this area*—As will be covered later, many franchises (such as the multilevel distribution type) are on a nonexclusive basis, and therefore the franchise you are investigating might already be in operation in your market. This is not a negative, and, in fact, in the case of fast food and personal service franchises it is better to have several per market as each benefits from the visibility of the other. On the other hand, a franchise might have failed at some time in the past in your area. You should know why. The final point in regard to this question is the amount of interest on the part of others in this franchise in your area. If the interest is high, that means that there is a pretty good chance that the general interest level would be high on the part of customers. On the other hand, if the interest level is low, this could be a negative. Ask the franchisor for the franchisee inquiry

count from your area. If there is a franchise in operation in your market, get the name and address of the owner, visit with him and discuss the franchise. He should be glad to answer your questions. Also, if there has been a failure, get the name and address of the person involved and talk to him too.

6. WHAT PRODUCT OR SERVICE WILL BE ADDED TO FRANCHISE PACKAGE

a. *Within 12 months*—This may be either the result of past planning or the result of a need to improve sagging sales. What you are looking for in this category is future growth. For example, in fast food what new product has been added, in the case of a business service franchise has income tax service been added, or have new courses been added to a school or home study program, etc.

b. *Within 2 years*—What is now in the planning stages? Perhaps the franchisor will not give specifics and this is understandable since this information would be of a confidential nature. Reasonable and reassuring answers should be available however. What you are looking for here are efforts to keep up with the market and its changing conditions. For example, if the franchise involves automobiles, is the future in tune with what is happening in Detroit, with the problem of air pollution, etc.

c. *Within 2 to 5 years*—This would be more in corporate goals than in the planning stages at this time. Ask what are the long range corporate goals for the franchisor. See if they have thought beyond the next couple of years. This is important because chances are that your competition is concerned with the future, if your franchise is not, the future of your franchise could be dim.

7. COMPETITION

a. *What would my competition be*—For the answer to this turn to the Yellow Pages. You might have to check more than one directory depending on the type of franchise you are considering. For example, if it is a fast food restaurant you would be interested in only the adjoining neighborhood. If the franchise is statewide, part of a state, or several states, you should check directories covering the total area. Call your telephone company business office for advice as to

what directories cover the area and how to get them. Make a complete list of competition listing addresses and telephone numbers of all locations. Visit several of the major ones and observe appearance, traffic, and attempt to appraise the current situation. Make notes for future reference. If the franchise looks particularly good, talk to the manager and get the name of the franchisor. Write to them for the franchise package . . . maybe it will be better than the one you are now investigating. The thing you want to accomplish here is to get a feel for competition . . . can you do the job? . . . is the market saturated with the product or service?

8. ARE ALL FRANCHISES INDEPENDENTLY OWNED

a. *Are all outlets franchised or are some company owned*—A recent development in franchising is the situation where franchise companies are buying back franchises so that stronger corporate control can be maintained. So far this has affected only major motel, restaurant, and fast food chains. You should find out whether or not all outlets are independent franchises. If not, how many are company owned. If there is evidence of recent company repurchase, find out what the repurchase agreement is.

b. *Date of most recent company acquisition*—If the answer to this is a recent date, then you are reasonably sure that a repurchase program is underway. That is unless the franchise was repurchased or taken over for contract violation. In the event the latter is the reason, it is not a negative but a strength indicating franchisor interest and policing program.

9. FRANCHISE DISTRIBUTION PATTERN

A major distribution pattern in the franchise industry, for both products and services, is the two-step method. Briefly, this means that the franchisor "packages" the product and sells it to distributors who in turn sell it to dealers who in turn sell it to the customer. The distributor usually covers a fairly large area. The dealer covers a very local area, usually his "backyard market."

a. *Exclusive vs nonexclusive*—This can be a surprise since many franchises, contrary to what people think, are not exclusive as far as territory is concerned. In some cases,

both the distributor and franchisor retain the right to sell direct in the franchisee territory. Also, they retain the right to sell more than one franchise in a given territory. There is nothing wrong with a nonexclusive franchise providing you are aware of the situation before you buy the franchise and want to work this way. The obvious disadvantage of the nonexclusive franchise is a smaller sales potential. This should be spelled out to your satisfaction in the contract.

b. *Distributorship vs dealership*—Which one of these is your franchise? You will find that the distributorship costs considerably more than the dealership and at the same time requires more business knowledge and leadership capabilities. If you do not have a strong business background and financial reserves, stay away from the distributorship. Start with a dealership. It will be close to home, require less capital, and your time will be concentrated on the management of that particular location rather than a group of locations. The return, however, from the dealership is usually less than from the distributorship. If your franchise is a dealership, get the name and address of your distributor, visit with him and see whether or not you can get along with him. It will be the distributor with whom you will conduct much of your business not the franchisor.

10. FRANCHISE OPERATIONS

Some franchises can be operated from the home, others require office space, others manufacturing facilities, and others the actual construction of a building. If the franchise requires office space or the construction of a building, make sure the franchisor offers guidance and assistance as this is the most important initial role he will play in getting your business started.

a. *What facilities are required*—Determine what is needed. This is usually very evident in the literature that is provided about the franchise. Usually sales organizations can be operated from home or from shared office space; personnel agencies require leased office space; retail type franchises require leased store space; and most fast food outlets and education type franchises require buildings that have to be constructed.

b. *Lease or build*—In either situation there are things to look out for. For example, a lease is usually signed for a specific period of time . . . one year, two years, etc. If it is a lease

situation, be sure of the time involved. If the space leased is too small and not expandable and your business grows to the point you need additional space and your lease is not up, a penalty will be charged by the building management to break the lease. Construction is a different situation and a different set of considerations. Labor problems can delay completion, weather can be a major factor on completion, etc. These are things that any realtor can tell you about. You should talk to one you know.

c. *Getting started*—If your franchise requires that customers come to your place of business (fast food outlets, home remodeling stores, income tax preparation, etc.) the critical point of getting started and the pivotal point on the success of your future business is the feasibility study. This should be done for you by the franchisor; if you are told to do it, view this as a negative. The feasibility study considers the experience gained by the franchisor in setting up successful franchises and applies it to your market. For example, the following information would be developed and evaluated: traffic count of various location possibilities, average income of the area, number of target prospects in the area (fast food would require high concentration of young families, etc.), and other factors critical to the success of the franchise. Past experience of the franchisor will tell what is required to assure the possible success of the franchise. You should make sure that any money "put down" on the basis of having the feasibility study conducted would be returned to you in the event the results are negative.

d. *Construction*—If you must build, once again the franchisor should be "your right hand man." In fact, he should guide you every step of the way. In checking what you get for the franchise fee you will find most times that this type of service is a major reason for a fee at all. If not offered, consider it a negative. Here you are getting into architecture and design, landscaping, contract award, construction, decor and furnishing, and financing. The subject of financing is critical and will be covered in Section C—FINANCIAL AND LEGAL.

B. FRANCHISE COMPANY

The primary purpose of this section is to get enough information about the company to be convinced that they are reputable, financially strong, and recognized as a leader in the field.

1. THE COMPANY

a. *Parent vs franchise company*—As outlined earlier, many times the franchise company is part of a larger company. In order to check thoroughly this should be known. Ask for, in addition to the name and address of the franchise company, the name and address, if any, of the parent company. Remember that being part of a larger company can be a very important asset to you in terms of financial stability and visibility. Also, it won't hurt when dealing with a bank for financing.

b. *Public vs private company*—Here you are concerned with the main or parent company. Find out whether or not you are dealing with a public (stock sold public) or a private (stock held by a small and private group) company. Checking on a public company is a relatively easy matter, whereas checking on the private company is more difficult.

c. *Public company checking*—This can be done via published sources since the SEC requires public disclosure of all stock traded public. Determine whether the stock is traded: OTC—over the counter; ASE—American Stock Exchange, or NYSE—New York Stock Exchange.

With this information contact your stock broker, ask him to send you a stock report on the company. This report will give you all the basic information on the financial structure of the company you need. Look for rising trends in sales, profits, and earnings per share. The report will also give you the address of the company and the name of the officers including the treasurer. Write to him on a postal card requesting a copy of the most recent quarterly and annual reports, as well as product literature. It is best to mention that this information is for your investment program. From this literature you will learn all additional information you need to know about the company. If you do not have access to a stock broker, consult a local college or public library. Most of them will have standard reference volumes that contain information on most public companies.

d. *Private company checking*—This is more difficult than checking public companies. If you have access to a financial

reporting service, request a report on the company in question. In any event, you should ask the franchisor for references including a bank and major supplier. Write to each asking specific questions, and in particular, attempt to determine their financial soundness, also ask some questions the answers to which have already been supplied by the franchisor. See if the answers are the same. This acts as a cross check. Write to the Better Business Bureau in your city and in the headquarters city of the franchise and ask for a report which is usually free.

It would also be a good idea to find out whether or not the franchisor is a member of the International Franchise Association, Inc., 1025 Connecticut Avenue, N.W., Washington, D.C. 20036. Write and see whether or not they are a member. See Appendix B for code that IFA members subscribe to. The preceding two checks should be conducted whether the franchisor company is public or private. What you want to look for once again is rising trends in sales and profits, how much money is being invested in research and development for the future, credit situation, and whether any negative comments have been registered against the franchisor.

Some States now have full disclosure laws which require the franchisor to supply you with much of this information. To find out if your State has such a law, contact your local SBA office or write to your State consumer protection office.

C. FINANCIAL AND LEGAL

In this section you want to determine exactly what you are getting in your franchise package, what you can expect to get in terms of return, and what does all that fine print say. We are assuming now, of course, that you have decided to go into business for yourself. There are some excellent aids on the latter point that can guide you. The Small Business Administration, Washington, D.C. has a vast amount of free aids covering the same subject including an excellent pamphlet entitled *Check List For Going Into Business.* Write to them outlining what you want to do; or better yet visit your closest regional office.

1. WHERE TO GET ADVICE

a. *Lawyer*—Before you sign anything and commit any money you should have a lawyer advise you and make sure that you understand what you are getting into. Make sure that you understand what legal liabilities are possible when you get into business and more importantly make sure these liabilities are covered by insurance, either your own or that of the franchisor. Check your own lawyer; if you do not have one, check with friends or another local small businessman and get the name of a qualified lawyer. Make sure the lawyer you select has interest and experience in advising small businessmen.

b. *Financial*—The balance of this section will outline questions of a financial nature. To be meaningful, figures must be interpreted by a "pro" . . . an accountant. As in the case of the lawyer, find one who is knowledgeable in advising small businessmen. The best way to find a good accountant is to ask local small businessmen for a recommendation, or perhaps your local Chamber of Commerce might have a suggestion.

c. *Management*—Business management involves the merging of legal and financial structures with the overall running of the business. Certainly the Small Business Administration Regional Office is your best source. In fact they offer periodic seminars on starting and managing a small business. Also check your local Chamber of Commerce to see what they have to offer. Discuss your proposed new business with a successful businessman and get his views. As you get started you can draw on an excellent source, the Service Corps of Retired Executives (SCORE). Contact the Small Business Administration for information.

2. TOTAL FRANCHISE COST

a. *How much money do I have to have to get started*—Don't be fooled by claims such as "Your own business for only $3,500." Make out your own forecast of required finances and include franchise cost, first year operating expenses, and personal funds required for up to 2 years. Keep in mind that starting a business does not mean that the income will automatically come in. In some franchises you might go as long as six months before a penny flows into your bank account. In any event, there is start up time

regardless of whether it is a personnel agency, fast food outlet, motel, rental agency, etc. I cite the 2 year period because this is the accepted break even "rule of thumb" for a new business. A franchise, however, should break even much earlier because part of what you are buying are proven products, programs, and procedures. In any event be wary of any franchisor that promises "riches" in less than 2 years. It just doesn't happen that way.

b. *What do I have to pay the franchisor to get started*—This consists primarily of two things . . . franchise fee and inventory, and material or construction costs. Make sure you get a complete answer to this question. It's too late once you have started in business to discover the true costs are more than you can handle. Let's consider each of the elements that go to make up the initial amount you pay the franchisor . . .

c. *Franchise fee*—Is there a fee as such? If so, how much? What does it include? What you are paying for in the franchise fee is the right to use and promote a name and identification program. The value of this depends on how well known the name and trademark really are. This factor is directly related to marketing and your judgement should be guided by what you find out in Section E—Marketing. Two other areas are also covered by this fee . . . initial training and home office assistance. Training is covered in Section D—Training, and Section F—Home Office Support. Ask the opinion of your lawyer and accountant and make sure you are getting true value for the fee. There are many good franchises that have no fee and others who will consider negotiating the fee.

d. *Services*—Are you paying for home office services as part of the initial franchise cost. If so, what are they? Find out what specifically you will get. Included here should be complete operating manuals on all phases of the operation. These should be updated as required. Also, is on the spot assistance of "home office experts" available? If so, who, when, what, how long, etc. In addition, find out whether or not the franchisor offers a computerized accounting system. Accounting is a costly and time consuming chore if you have to do it yourself, so this service from the franchisor is a plus.

e. *Product*—Does the initial cost include an "opening"

inventory? Is the price fixed for this and reorder? Is the price competitive? Can you buy elsewhere more cheaply? Are you permitted to do so? Can you continue to do so? Get an itemized list including your cost and your cost to your customers. Check and see what percentage of your total initial cost can be recovered by the resale of the inventory. Also important in this evaluation is the cost to your customer:

1. Is the price competitive with equal products?
2. Is the quality worth the price?
3. Will the customer be a repeat customer based on the quality of the product?

f. *Real Estate*—How much of the initial money required is for the purchase of land and construction of your place of business?

g. *Equipment and fixtures*—Is the cost of start up equipment and fixtures included in the initial costs? Does the franchisor have an equipment subsidiary from which you can purchase all equipment, furniture, and supplies at a favorable cost? Are they priced competitively? Could you save money buying them elsewhere? If so, can you? If all the supplies and equipment you need are not included in the package price then you must allow for this in your personal start up costs. Personal service type franchises will usually require only office furnishings; whereas fast food and education franchises will usually require a physical plant and various types of equipment and supplies.

h. *Other*—Always check to see if there are any unique features of the franchise. If so, are they part of the initial cost. Also, are there any "employee benefits." Some franchises include benefit programs of life insurance, hospital insurance, and retirement plans.

i. *Is any of the initial cost refundable*—Some franchises make it possible to get back the cost of the franchise fee if the franchise is successful and maintains a predefined sales volume. This is a good thing to look for . . . it provides a real incentive for the franchisee to "stick with it" and "follow the rules." If there is such a plan, find out exactly what it is and make sure it is covered in your franchise agreement.

3. FINANCING

a. *Is part of the initial cost to the franchisee financed*—In most cases where the start up costs are high the franchisor will finance a portion of the cost. Usually they will require that you pay the franchise fee in cash. Then on the basis of an acceptable financial statement they will finance the balance of the start up costs.

b. *What is the interest rate*—Federal banking laws now require that the "cost of borrowing" be disclosed to the borrower. Find out what the interest rate is and check around and see if you can do better. Remember that many franchise companies have finance company subsidiaries whose business it is to lend money to the franchisee. Make sure they are competitive. Check your local bank. Also try the Small Business Administration and see if you can qualify for a SBA loan. Get the best deal you can since every dollar you can save in interest is a profit dollar for you.

4. FORECAST OF INCOME AND EXPENSES

The forecast, the product or service to be sold, and the written agreement are the three most important areas that must be considered in the evaluation of a franchise. Evaluation of the product has already been covered, the agreement will be discussed later in this section. Remember in computing the forecast of income and expenses that this should be based on the experience of successful franchises and a conservative forecast of sales. Don't be carried away by good looking figures that show amazing profits at the end of one or even two years.

a. *Is a forecast of income and expenses provided*—Ask this question and get a copy if the answer is yes. Ask your accountant to review it and if he does not agree with the franchisor have him prepare one. Review the two opinions with the franchisor and require that he provide reasonable answers for the differences. Also check some current franchisees and ask them the same questions. If the franchisor does not supply a valid forecast of income and expenses in writing or if he cannot give reasonable answers to your questions, consider these as strong negatives against purchasing the franchise.

b. *Does the forecast relate to your market area*—This considera-

tion relates back to the initial section and the question "Needed in your area." If the need is there the chances are very good that the forecast can be projected to relate to your market. Make sure, however, that this is the case. Find out if the forecast is based on experience, if so make sure that the forecast you follow is based on a market equal in size to your own and compatible with the profile of your market demographics (average age, income, race, family size, property value, etc.).

c. *Does the forecast provide to meet your personal goals*—Is there sufficient income so that you can meet expenses and payroll and at the same time pay yourself a salary that will support your family in the way you want to? Only you know the answer to this. A good idea is to put the family budget on paper. Start by listing month by month all regular expenses. Then take annual costs such as medical, clothing, recreation, etc. and divide them equally assigning a portion to each month. This gives you a monthly "break even" point for the family. What you will be doing is paying regular bills as they come up and building an escrow account for the annual type bills. Savings, when you are building your own business, will probably not be possible for awhile; but remember every day you operate a successful business you are building an equity which will be your future.

d. *Does the forecast show an adequate return on investment*—In starting your own business you are investing in yourself. Like any investment you expect a return on the principal invested as well as safety of the principal. See that the return you have set as your goal is there. (This is in addition to the money you take out as salary).

e. *Does the forecast provide for adequate promotion and personnel*—Sales to obtain orders and people to fill them are the key factors to the success of any business. One without the other can spell disaster. Make sure that there is adequate money assigned to the payroll and advertising promotion accounts. The latter will be covered in Section E—Marketing.

5. WHAT IS THE PROPER LEGAL STRUCTURE FOR MY COMPANY

According to the Small Business Administration there are six points, in addition to tax considerations, that are significant

in determining the proper legal structure. They are cost and procedures in starting, size of risk, continuity of operations, adaptability of administration, influences of applicable laws, and attraction of additional capital. The SBA has an excellent pamphlet on this subject; write for Management Aid No. 80, "Choosing the Legal Structure for Your Firm." Use your lawyer on determining the answer. The following, again from the SBA Management Aid, are the three main choices for legal structure.

a. *Proprietorship*—The easiest to begin and end, can have the most flexible purpose for its operations, needs no Government approval, has business profits taxed as personal income, and makes the owner personally liable for debts and taxes.

b. *Partnership*—This is the simplest for two or more people to start and terminate, has the same flexibility of objective, has partners taxed separately, and makes all except limited partners personally liable for debts and taxes.

c. *Corporation*—This is the most formal of structures, operates under State laws, has continuous and separate legal life, has its scope of activity and name restricted by a charter, has the business' profits taxed separately from earnings of executives and owners, and makes only the company (not the owners nor managers) liable for its debts and taxes.

6. ARE ALL DETAILS COVERED IN A WRITTEN FRANCHISE CONTRACT

This is the instrument that is the formal understanding between the franchisor and franchisee. All the major points about your franchise should be spelled out here. Do not accept the "gentleman's agreement" from a representative of the franchisor . . . get it in writing. Have both your lawyer and accountant review the contract before signing.

a. *What to look for*—Once again be guided by your lawyer and accountant but be sure to look for franchise fee; termination, selling, and renewal clauses; cooperative advertising and promotion funds; does franchisor patent and liability insurance protection extend to the franchisee; are the home office services spelled out; are all the details as to commissions, royalties, etc. spelled out; is the training program and who pays for what spelled out; are financing

and financing details spelled out including repayment and interest; is the territory covered outlined, is it exclusive or nonexclusive, and can the franchisor or his representative sell direct in your area.

Note: the termination clause should be carefully reviewed to make certain that you have a sufficient grace period and that your rights as well as those of the franchisor are represented.

D. *TRAINING*

One of the unique features of franchising is that it provides an opportunity for a person to enter a business that is of interest to him but about which he knows nothing. The franchisor assumes the role of educator and is responsible for the training and education of the franchisee and his staff. This training should be very concentrated at the start and should be continuing to keep the franchisee and his staff current and up to date as far as new products, techniques, methods of operation, etc.

1. INITIAL TRAINING

This is the critical area. What does the franchisor provide in the way of a training school to teach you the business of your franchise, how to operate your business, how to recruit and train personnel, etc. In other words a "how to" course. Usually this training is of a formal nature and conducted at the home office.

a. *Duration*—This of course depends on the franchise and how complicated the business is. It can range from one day to two months. How long is your initial training program? Equally important here is what happens after you have "graduated." Are you sent home to run your business; or does a field representative work with you at home to give you "on the job training" and guide you as you start ou.. If "on the job" assistance is not provided by the franchisor this should be considered a negative. Remember here that while you are gone from home you will not be generating any income. There are, however, some franchises that pay you while you learn. This should be the case when the training period is quite long.

b. *Cost*—This should be part of your franchise contract. Usually your franchise fee includes the cost of training, supplies, and your personal expenses while training. Check

and make sure that this is the case. See that everything is covered including transportation, room and board, as well as training and supplies.

c. *Curriculum*—What is included in the training program? The franchisor should be able to provide you with a training schedule so that you can see what is included. If you are dealing with a reputable franchisor you will have no problem here since the success of your business, and therefore his, is determined by how well you know your business. Also, as was pointed out before, successful franchises follow a prescribed program and you can only learn the program through training. Make sure that the following is covered: franchise operations, sales, finance, promotion, personnel, management, manufacturing and maintenance (if franchise includes this), and training.

d. *Staff Training*—In many franchises you will be hiring employees who have to be trained. Usually this becomes the job of the franchisee and field trainers of the franchisor. Very seldom does the franchisor provide employee training at the home office. There are exceptions to this of course. Check and find out which is the case with your franchise. If the job becomes yours there are two things to find out . . . do you get assistance from the home office in the form of a field representative to help with the training and what is the training program provided. Training is not as difficult as it may sound. Most franchisors have "canned training programs" which are either on film or film strip. The franchise package usually includes all that is needed to run the program including projectors, record players, manuals, samples, etc. Find out exactly how this will be handled and what you will get.

2. CONTINUING TRAINING

You have to stay up to date to get ahead. It's as simple as that. Things change every day and your success depends on how current your business is. For example, if you have a fast food outlet and teen age fads change to the point that what you offer is no longer "in," what do you do?

Once again you look to the franchisor to keep you and your staff up to date through continuous training.

a. *Program*—What is the specific program of continuous training. Is there a formal "refresher course" for franchise

principals? Are the staff training programs updated regularly? Are there seminars? Is there a constant flow of home office educational materials? Request samples.

b. *Cost*—What is the cost of the continuing program? Is it part of the franchise package or does it cost additional?

c. *Materials*—You should be given a complete list of training materials as well as an outlining of both initial and continuing training programs.

Suggestion: When you interview present and past franchisees, include training in your line of questioning. Find out if the franchisor provides the training he promised at the time of signing the contract and is the training effective and complete?

E. MARKETING

This is the lifeblood of your franchise once you are in business. How you market, or sell, your product or services is important because it determines size of staff, capital required, and most important of all the type of work you will be devoting your future to. It is important that you understand how you will market your products or services. In some cases you do selling only, the franchisor provides the leads; in other cases it is up to the franchisee to generate leads and follow up on them. Also important is who will be your prospects and customers.

1. HOW IS THE PRODUCT OR SERVICE SOLD

There are different methods of selling. For example, a cosmetics franchise might require cold canvass, door-to-door; a technical school franchise would probably be in-home by appointment; a bill collecting agency will probably be a combination of direct mail and telephone; fast food outlets and other retail franchises would be in-store sales; and most franchises selling to business executives would involve selling at the prospect's place of business by appointment. Which of these, or possibly a combination of two or more, is the selling method of your franchise?

2. HOW DO YOU GET THE SALES LEADS

This takes various forms. In some cases the franchisor through national advertising, public relations, and direct mail generates all the leads and turns them over to the franchisee for followup. The other extreme is that the franchisee has to secure

his own leads either with or without cooperative advertising support from the franchisor. (If this is the case, is it provided for in the forecast?) An important thing to remember is that a satisfied customer is your best advertisement. There should be a technique to get referral prospects from your satisfied customers. Other methods of securing sales leads are telephone solicitation and trade show booths. Trade show attendance is usually handled by the franchisor or a distributor.

3. WHO ARE THE PROSPECTS FOR THE PRODUCTS OR SERVICES

It is imperative that you know who your prospects are. In most businesses an accurate rule of thumb is 20 percent of your customers account for 80 percent of your business. You need to know who that 20 percent is for your franchise. In consumer products the profile of your best customer will probably be described by age, sex, and income; whereas your best business customer would be described by type of business, annual sales volume, number of employees, and title of purchaser. Ask for a profile of the prospect. If this information is not available it should be viewed as a negative.

4. WHAT IS THE NATIONAL ADVERTISING PROGRAM OF THE FRANCHISOR

The answer you get to this question depends on the way you ask it. Most franchises are sold via ads much like the one you probably answered. Many franchisors will include the franchise sales advertising program as part of the answer to how much they are spending in advertising. Others will include the dollar value of publicity appearing in newspapers, magazines or on radio and TV. What you want to know is what is the national advertising program promoting the products or services of the franchise to the prospective customers. Public media such as television, radio, newspaper, magazine, and outdoor are important to the visibility of the product and franchise trademark. Remember the franchise fee you pay is for the use of these; and therefore make sure they are properly and effectively promoted. Direct mail if it is local or supporting franchise sales should not be considered as part of the national program. Samples of the national advertising should be available to prospective franchisees. You should find out where the advertising runs so that you can look for it and form your own opinion as to its effectiveness.

5. WHAT KIND OF ADVERTISING AND PROMOTION SUPPORT IS AVAILABLE FOR THE LOCAL FRANCHISEE

This is the local advertising and promotion program in support of your franchise in your market. This should be an extention of the national program. . .make sure it is. For this reason the franchisor should supply packaged programs for your use. These programs should include ad mats, radio scripts, TV commercials, sample media programs, direct mail programs, point of purchase material, sample publicity releases and accompaning photographs, etc. Refer to the section on finance for a discussion of co-op advertising. The establishment of your business is news. Does the franchisor provide plans for a grand opening; including advertising, publicity, etc. Ask to see a sample kit.

6. SHOULD YOU HAVE AN ADVERTISING AGENCY

Probably not because part of the franchise package should be a tested advertising program along with complete instructions as to how to implement it. You should get some assistance from the franchisor's field man and possibly his advertising agency. In some cases, particularly in larger cities, the national advertising agency of the franchisor might have a branch office in your city. If this is the case, you can probably get assistance from them at no cost other than the normal cost of the advertising space or time. Check with the franchisor to see if this assistance comes from the field man or the advertising agency.

F. HOME OFFICE SUPPORT

Even though you will be in business for yourself your success is tied directly to the franchisor and therefore you should look to your home office as a branch manager of a company would look to his home office. For the most part the home office of the franchisor will consist primarily of people as opposed to manufacturing facilities, warehousing, etc. You will probably find that the number of home office personnel might seem low when compared to companies with company owned distribution systems. It is important to keep in mind, therefore, that it is not quantity but quality that is important to you. For example, a technical school franchise would be expected to have persons on staff who have backgrounds in education; also there should be education experts serving either as directors or consultants. In this section therefore you want to find out the qualifications of the franchisor in respect to the product or service of the franchise.

1. PRINCIPALS AND DIRECTORS

a. *Principals*—Who are the key persons in the day to day operation of the business? What are their backgrounds and accomplishments? If all have financial and or sales backgrounds and no particular experience in the field of the franchise this should be considered a negative. Look for sound business and financial experience and a depth of expertise in the business of the franchise. For example, if the franchise is in the automotive field you would expect to find that some of the principals came from automotive companies. If the franchise is in the motel field you would expect experience from one of the major motel chains.

b. *Directors*—Who are the members of the board of directors? These board members usually serve without pay and many times are majority stockholders. What you are looking for are directors who have backgrounds related to the business of the franchise. The more the better for you. Also it is always good to find the following on the board: officer of a bank, professor of a university, and officers of major companies.

2. CONSULTANTS

a. *Consultants*—Somewhere in between the principals and the directors fit the consultants. These are people who are specialists in specific fields and sell their services on a retainer basis to companies needing strength in the particular area the consultant serves. There are transportation consultants, medical consultants, marketing consultants, management consultants, etc. Check and see if the franchisor has "beefed up home office capability" with any consultants. Find out who they are and a little bit about them.

3. SERVICE DEPARTMENTS

a. *Service departments*—These departments are what the title says. . .service. They are in existence to be of service to the franchisee so it is in your best interests to find out what they are, who is in charge, what is his background, and the specific services they provide. Other sections have covered what services you may want. Critical departments to look for are: finance and accounting, advertising and promo-

tion, sales and marketing, research and development, real estate, construction, personnel and training, manufacturing, and operations. In addition to the departments covered earlier two others mentioned above are very important. Research and Development is the lifeblood to any organization since it is charged with plotting the future of the product or service line. This should be an active department with an adequate budget. Also the operations department (many other names are assigned to this) with which you will have much of your contact is most important. This is the department that is charged with the responsibility of liaison between franchisor and franchisee. In the case of a distributor set up, the distributor works through the operations department and the local franchisee through the distributor. In any event make sure that there is a clear channel of communication between you and your distributor or franchisor.

4. FIELD SUPPORT

a. *Field Support*—This is covered in the sections on training and marketing as it relates to those specific subjects. What you want to find out is specifically what you get in terms of help at your place of business from the franchisor. You will note that most franchise package benefits mention field support, but the questions are when, how often, who, what does he do. It would be good to get the name of this person and talk to him to get an understanding of what he really can do for you.

CHAPTER 3

FRANCHISE PROFILE

The questions of Chapter 2 are repeated here without the discussion. When these questions are answered, they will form the profile of the franchise that you are evaluating. Before you actually begin to prepare the profile of a specific franchise, read through Chapter 3 and relate the questions to the corresponding discussion in Chapter 2. Then, try to determine what you need in a franchise.

As you read through the questions, you will notice that some of them will require you to do a little homework before you can effectively evaluate a franchise. For example, you must know what your personal living expenses are before you can determine if the forecast of profits is sufficient. Depending on how much you know about the business of the franchise, you will have to think about what you will need in a training program. You might also think about and make decisions about how much capital you have and what financing you will need.

On the other hand, some questions must be researched before you can evaluate them. For example, the franchisor must supply the names of franchisees that failed. Chapter 2 suggests three sources of information for the reasons why the franchisees failed. Also, the answers to some questions must be weighed

against the entire package. What you will need in advertising will depend on the type of product, the area to be serviced, etc.

As you prepare your profile, note that the questions become increasingly more specific. An early negative reply to one of the more general questions might carry enough weight to discourage further consideration of that franchise. Be aware of this possibility and you may save considerable time and effort in the information gathering stage of the evaluation. It is suggested that you make a copy of Chapter 3 for each franchise you intend to evaluate. By having a similar format for each franchise profile, it will be easier to compare them.

FRANCHISE INDEX/PROFILE

A. FRANCHISE—GENERAL (see pages 5 to 13 of Chapter 2)

1. IS THE PRODUCT OR SERVICE:

	Yes	*No*
a. Considered reputable	___	___
b. Part of a growing market	___	___
c. Needed in your area	___	___
d. Of interest to you	___	___
e. Safe	___	___
Protected	___	___
Covered by guarantee	___	___
f. Carry the name of a well known personality	___	___
Sound franchise without well known personality	___	___

2. IS THE FRANCHISE:

a. Local	___	___
Regional	___	___
National	___	___
International	___	___
b. Full time	___	___
Part time	___	___
Full time possible in future	___	___

3. EXISTING FRANCHISES:
   a. How long was the company in business before the first franchise was awarded? _____ years.
   b. What date was the company founded and what date was the first franchise awarded? Company founded _____. First franchise awarded _____.
   c. Number currently in operation or under construction? _____. Information on those to contact:

Franchise #1: Owner _____

Address _____

_____

Telephone _____

Date Started _____

Franchise #2: Owner _____

Address _____

_____

Telephone _____

Date Started _____

Franchise #3: Owner _____

Address _____

_____

Telephone _____

Date Started _____

Franchise #4: Owner _____

Address _____

_____

Telephone _____

Date Started _____

d. How many franchises are planned for the next 12 months (not including those awarded and not yet in operation)? _____.

4. WHY HAVE FRANCHISES FAILED?

a. How many franchises have failed?_____ How many of these have been in the last 2 years? _____

b. Why have franchises failed?

Franchisor Reasons: _____

_____

_____

Better Business Bureau Reasons: _____

_____

_____

Franchisee: _____

_____

_____

5. FRANCHISE IN LOCAL MARKET AREA

a. Has a franchise ever been awarded in this area? _____ . If so and if it is still in operation:

Owner _____

Address _____

Telephone _____ Date started _____

If so and if it is no longer in operation:

Person involved _____

Address _____

Date Started _____ Date ended _____

Reasons for failure _____

_____

How many inquiries have you had for your franchise from my area in the past 6 months? _____.

6. WHAT PRODUCT OR SERVICE WILL BE ADDED TO FRANCHISE PACKAGE?

a. Within 12 months? _____

_____

b. Within 2 years? _____

_____

c. Within 2 to 5 years? _____

_____

7. COMPETITION?
   a. What is my competition? _____

   _____

   _____

8. ARE ALL FRANCHISES INDEPENDENTLY OWNED?
   a. Of the total outlets, _____ are franchised, and _____ are company owned.
   b. If some outlets are company owned did they start out this way _____ or were they repurchased from a franchisee _____ . Date of most recent company acquisition _____ .

9. FRANCHISE DISTRIBUTION PATTERN:
   a. Is the franchise exclusive _____ or nonexclusive _____ .
   b. Is the franchise a distributorship _____ or a dealership _____ . If it is a dealership who is the distributor in my area:
      Name _____

      Address _____

      How long has he been a distributor _____

10. FRANCHISE OPERATIONS:
    a and b. What facilities are required and do I lease or build.

    Operated out of home _____

	Build	Lease
Office	___	___
Building	___	___
Manufacturing facility	___	___
Warehouse	___	___
_____	___	___
_____	___	___

c and d. Getting started . . . who is responsible for what?

	Franchisor	Franchisee
Feasibility Study	_____	_____
Design	_____	_____
Construction	_____	_____
Furnishing	_____	_____
Financing	_____	_____

B. FRANCHISE COMPANY (see pages 13 to 15 of Chapter 2)

1. THE COMPANY:
   a. What is the name and address of the parent company if different than the franchise company:

      Name _____

      Address _____

   b. Is the parent company public _____ or private _____

   c. If the company is public where is the stock traded:

      New York Stock Exchange _____
      American Stock Exchange _____
      Over the Counter _____
      _____ _____

   d. If the company is private the president is_____ . The following bank can be used as a reference:

      Name _____

      Address _____

      Person to contact _____

C. FINANCIAL AND LEGAL: (see pages 15 to 21 of Chapter 2)

1. WHERE TO GET ADVICE:
   a. Lawyer

      Name _____

      Address _____

      Telephone _____

b. Financial
Name _____

Address _____

Telephone _____

c. Management
Name _____

Address _____

Telephone _____

2. TOTAL FRANCHISE COST:

a. How much money do I have to have to get started?

Item	Amount
Franchise start up (2b)	$_____
First year operating	$_____
First year personal	$_____
TOTAL	$_____

b. thru h. What do I have to pay the franchisor to get started? $ _____

Basis of cost:

Item	Amount
Franchise Fee	$_____
Services	$_____
Product	$_____
Real Estate	$_____
Equipment	$_____
_____	$_____

c. Is any of the initial franchise cost refundable? _____ .
If so, on what basis? _____

_____

3. FINANCING:

a. Is part of the initial cost to the franchisee financed? _____ . If so how much $ _____ , this represents _____% of the total initial cost.

b. What is the interest rate? _____ %. When does financing have to be paid back? _____

4. FORECAST OF INCOME AND EXPENSES:

a. Is a forecast of income and expenses provided?_____ .
Is it:
based on actual franchisee operations? _____
based on a franchisor outlet? _____
purely estimated? _____

b. thru e. If a forecast is provided does it:

	Yes	No
Relate to your market area	___	___
Meet your personal goals	___	___
Provide adequate return on investment	___	___
Provide for adequate promotion and personnel	___	___

5. WHAT IS THE BEST LEGAL STRUCTURE FOR MY COMPANY?

a. thru c.
Proprietorship _____
Partnership _____
Corporation _____

6. ARE ALL DETAILS COVERED IN A WRITTEN FRANCHISE CONTRACT?

Yes _____ No _____ (get copy for lawyer and accountant review)

a. What to look for—are these included?

	Yes	No
Franchise fee	___	___
Termination	___	___
Selling and renewal	___	___
Advertising and promotion	___	___
Patent and liability protection	___	___
Home office services	___	___
Commissions and royalties	___	___
Training	___	___
Financing	___	___
Territory	___	___
Exclusive vs nonexclusive	___	___

D. TRAINING (see pages 22 to 24 of Chapter 2)

i. INITIAL TRAINING:

a. Does franchisor provide formal initial training? _____ . If so how long does it last? _____ .

b. Cost

	Yes	No
Included in franchise cost	___	___
Includes all materials	___	___
Includes transportation	___	___
Includes room and board	___	___

If not included in franchise cost what is total cost including all outlined above? $ _____ .

c. What does the training course include?

	Yes	No
Franchise operations	___	___
Sales	___	___
Finance	___	___
Promotion	___	___
Personnel	___	___
Management	___	___
Manufacturing and maintenance	___	___
Training	___	___
_____	___	___
_____	___	___

d. How do you train your initial staff? Is a training program provided? _____ . Does the franchisor make available a staff member from the home office to assist? _____ . What materials are included in the staff training program? _____

_____

_____

2. CONTINUING TRAINING:

a. thru c. What is the continuing program? Is there any cost? _____ . If so how much $ _____ . Are there any special materials or equipment required? _____ . If so what? _____ . What is the cost to the franchisee? $ _____ .

E. MARKETING: (see pages 24 to 26 of Chapter 2)

1. How is the product or service sold?

	Yes	No
In home—appointment	___	___
In home—cold	___	___
Telephone	___	___
In store or place of business	___	___
At business—appointment	___	___
At business—cold	___	___
Mail	___	___
_____	___	___

2. How do you get the sales leads

	Yes	No
Franchisor	___	___
Franchisee	___	___
Both	___	___
Advertising	___	___
Direct Mail	___	___
Telephone	___	___
Trade Shows	___	___
_____	___	___

3. Who are the prospects for the products or services? Outline a brief profile: _____

_____

4. What is the national advertising program of the franchisor?
   a. What is the national advertising budget?
      $_____ .
   b. What are the primary advertising media?
      Television _____
      Radio _____
      Outdoor _____
      Newspaper _____
      Magazine _____
      Direct Mail _____
5. What kind of advertising and promotion support is available for the local franchisee?

	Yes	No
Is a packaged advertising program available?	___	___
Is there a co-op advertising program?	___	___
Is there a grand opening package?	___	___

6. Should you have an advertising agency?_____ .

F. HOME OFFICE SUPPORT (see pages 26 to 28 of Chapter 2)

1. PRINCIPALS AND DIRECTORS:

a. Who are the key persons in the day to day operation of the business:

Name	Title	Background
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

b. Who are the directors (do not include those from a. above)?

Name	Business Association
_____	_____
_____	_____
_____	_____

2. CONSULTANTS:

a. Who are the consultants to the company?

Name	Business Specialty
_____	_____
_____	_____
_____	_____

3. SERVICE DEPARTMENTS:

a. What service departments do you have?

	Yes	No
Finance and accounting	___	___
Advertising and promotion	___	___
Sales and marketing	___	___
Research and development	___	___
Real estate	___	___
Construction	___	___
Personnel and training	___	___
Manufacturing and operations	___	___
Purchasing	___	___
_____	___	___
_____	___	___

4. FIELD SUPPORT:

a. Do you have a field man assigned to working with a set number of franchises? _____
Who would be assigned to my franchise? _____
How many other franchises is he assigned to? _____
May I contact him? _____

APPENDIX A

FEDERAL TRADE COMMISSION AND FRANCHISING

It is obvious that because of the impact of franchising on the U. S. economy and the alarming number of complaints to the Federal Trade Commission and other consumer protection agencies about the questionable practices of some franchisors that the franchise industry will receive some sort of regulation by the U. S. Government in the very near future. The Federal Trade Commission and other Governmental bodies have publicly expressed their concern over the increasing number of complaints about certain franchisors.

An important step in Governmental regulation and aid in addition to the study commissions now underway was the issuance recently of a Consumer Bulletin on franchises by the Federal Trade Commission. You may obtain a free copy by writing for Consumer Bulletin No. 4, "Advice For Persons Who Are Considering An Investment In A Franchise Business," Federal Trade Commission, 6th St. and Pennsylvania Ave. N.W., Washington, D.C. 20580.

The following is a summary from this bulletin as to "What steps can you take to protect yourself as a prospective franchisee?"

A. Don't be rushed into signing a contract or any other documents relating to a franchise promotion. Be wary of pressure for an immediate contract closing for the alleged purpose of precluding others who are supposedly waiting to take the territory if you delay. Don't make any deposits or down payments "to hold a franchise open" or "to demonstrate good faith" or for any other reason, unless you are absolutely certain about your decision to go ahead with the franchise arrangement. Remember, reputable firms don't engage in high-pressure sales tactics.

B. Find out all you can about the franchise. View the franchise proposal in the light of this pamphlet and resolve all areas of uncertainty before making a decision. Ask the franchisor for some names and addresses of his franchisees. No reputable franchisor will object giving you this information. *Personally* contact a representative number of these franchisees and discuss all aspects of the operation. Have they realized all the promises made to them by the franchisor? Has the franchisor met his contractural obligations?

C. Call your local Better Business Bureau. Ask for a business responsibility report on the franchisor-promoter. The Bureau's report may help you determine if the promoter is legitimate and if complaints have been received from others. If your local Better Business Bureau has no information on the franchisor, contact the National Better Business Bureau, 230 Park Avenue, New York, New York, 10017.

D. Be certain that all terms of the agreement are set forth in a written contract which is not oppressive in its requirements upon you or unfairly weighted in the favor of the franchisor.

E. Consult a lawyer and have him review all aspects of the agreement before you sign the contract or any papers relating to the franchise. This may turn out to be the soundest investment you could have made.

F. If you have a complaint about a deceptive franchising practice, contact your local or state consumer protection agency and the Federal Trade Commission. While the Commission can't personally assist you in recouping losses you may have suffered, it will be able to prevent other prospective franchisees from being deceived in the same manner.

APPENDIX B

INTERNATIONAL FRANCHISE ASSOCIATION

The International Franchise Association (IFA), with executive offices at 1025 Connecticut Avenue, N.W., Washington, D.C., 20036, is a not-for-profit association which is an industry organization of franchisors. Currently there are more than 150 companies that are members of this association.

The association has two major membership categories of interest to the prospective franchisee: Member and Associate Member.

Any person, firm or corporation engaged in franchising as a franchisor is eligible to be a Member of the Association if it:

(1) has a net worth of at least $200,000.00;

(2) has been in business for at least two years;

(3) has a satisfactory financial condition;

(4) has at least ten franchisees of individual units or three area franchisors if that is its method of operation; one of which shall have been in operation at least two years;

(5) has complied with such state and federal full disclosure requirements as may be applicable;

(6) has satisfactory business and personal references.

Any person, firm or corporation that desires or intends to engage in franchising as a franchisor, or is engaged in franchising as a franchisor but is not yet eligible to be a Member is eligible for Associate Membership in the Association if it:

(1) has satisfactory business, financial and personal references;

(2) has complied with such state and federal full disclosure requirements as may be applicable.

Associate Members are not permitted to use the Association's seal.

The importance of this organization to the prospective franchisee are the IFA Code of Ethics first developed and adopted in 1960 and the Association's Ethical Advertising Code. According to the Application for Membership in the IFA the following pertains to the Codes:

> "In making application, the applicant hereby certifies that it has read and understands the Code of Ethics and Ethical Advertising Code of the Association, that the applicant's business is conducted in accordance with said Codes and that it will continue to be so conducted throughout the duration of the applicant's membership. It is understood that membership in the IFA is conditional upon adherence to the Codes and that membership may be either suspended or terminated by the IFA Board of Directors for failure to comply with either of the said Codes."

It is worth a letter to the IFA requesting a copy of the International Franchise Association Membership Roster to determine whether or not the franchise you are interested in is a member. The codes themselves are reassuring.

INTERNATIONAL FRANCHISE ASSOCIATION
CODE OF ETHICS

PREAMBLE

A Code of Ethics is a statement of the rules of good business conduct. It is structured on the principles that the conduct of one person necessarily affects others; that the common good must always be a prime consideration in decisions made and action taken; and that no man should act in disregard of the rights of others.

This Code of Ethics recognizes:

That the relationship between a franchisor and his franchisees is necessarily comprehensive, covering a wide area of activities, and of mutual and reciprocal obligations and responsibilities;

That franchising is an economic technique of distribution and not an industry and therefore embraces many industries, each with its own unique attributes; and

That the primary objective is to serve properly and effectively the ultimate user or consumer of the franchising company's products, goods, system or services.

To assure the enhancement of mutual trust and confidence in the franchise relationship and in the franchise system of distribution, and being ever mindful of the public welfare, we, the members of the

INTERNATIONAL FRANCHISE ASSOCIATION,

do hereby adopt and subscribe to this Code of Ethics:

THE CODE

I The Association's Ethical Advertising Code shall govern the advertising practices of members.

II No member shall sell, offer for sale, or distribute any product or render any service, or promote the sale or distribution thereof, under any representation or condition (including the use of the name of a "celebrity") which has the tendency, capacity, or effect of misleading or deceiving purchasers or prospective purchasers.

III No member shall imitate the trademark, trade name, corporate name, slogan, or other mark of identification of

another franchisor in any manner or form that would have the tendency or capacity to mislead or deceive.

IV The so-called pyramidal distribution system is inimicable to the interests of the consumer, the distributor, and the franchise concept, and no member shall engage in this method of doing business.

V Full and accurate written disclosure of all information material to the franchise relationship shall be given to prospective franchisees within a reasonable time prior to the execution of any binding document.

VI The franchise agreement shall set forth clearly the respective obligations and responsibilities of the parties and all other terms of the relationship, and be free of ambiguity.

VII The franchise agreement and all matters basic and material to the arrangement and relationship thereby created shall be in writing and executed copies thereof given to the franchisee.

VIII A franchisor shall select and accept only those franchisees who, upon reasonable investigation, possess the basic skills, education, personal qualities, and adequate capital to succeed. There shall be no discrimination based on race, color, religion, national origin or sex.

IX A franchisor shall exercise reasonable surveillance over the activities of his franchisees to the end that the contractual obligations of both parties are observed and the public interest safeguarded.

X Fairness shall characterize all dealings between a franchisor and its franchisees. A franchisor shall give notice to its franchisee of any contractual breach and grant reasonable time to remedy default.

XI A franchisor shall make every effort to resolve complaints, grievances and disputes with its franchisees with good faith and good will through fair and reasonable direct communication and negotiation. Failing this, recourse should be made, if possible, to arbitration, with litigation pursued only as a last resort.

INTERNATIONAL FRANCHISE ASSOCIATION
ETHICAL ADVERTISING CODE

INTRODUCTION

This Ethical Advertising Code is premised upon the following principles:

- An advertisement in whatever form presented, published or disseminated, must be considered in its entirety and as it would be read and understood by those to whom directed.
- An advertisement as a whole may be misleading although each sentence thereof, separately considered, may be literally true. This may result from omitting to state what should be stated or purposefully slanting what is stated in a way calaculated to mislead.
- An advertisement, considered in its totality should be free from ambiguity.

The Code is not intended to serve as a comprehensive statement respecting the detailed content of advertisements; nor is it intended to cover every possible situation which may arise regarding what is or is not ethical advertising. In essence, it emphasizes compliance with applicable law, fidelity to truth, and avoidance of deception.

COVERAGE

The Code shall apply to all forms, types and manner of advertisements, including (but not limited to) direct mail, newspaper, magazine, radio, television, placard, brochure, and display sign.

APPLICATION

Each member of the Association subscribes to the principles upon which the Code is based, and shall, as a condition of membership, comply therewith.

THE CODE

1. All advertisements shall comply, in letter and spirit, with all applicable rules, regulations, directives, guides and laws, promulgated by any governmental body or agency having jurisdiction with respect thereto.

II. An advertisement containing or making reference, directly or indirectly, to performance records, figures or data respecting income or earnings of franchisees, shall be factual, and, if necessary to avoid deception, accurately qualified as to geographical area and time periods covered.

III. An advertisement containing information or making reference to the cost of a franchise or its investment requirements shall be as detailed as necessary to avoid being misleading in any way and shall be definite and specific with respect to whether the stated amount(s) is a partial or the full cost of the franchise, the items paid for by the stated amount(s), financing requirements and other related costs or investment charges.

APPENDIX C

SMALL BUSINESS ADMINISTRATION

In addition to the franchisor the franchisee or prospective franchisee has an equally competent source to turn to for aid and assistance. The Small Business Administration (SBA) is an independent government agency whose sole purpose is to help small business. This agency through its 89 field offices (listed later in this appendix) offers financial and management assistance, aid in obtaining government contracts, counseling services, and more than 300 publications covering successful practices in every small business field. Much of this is free of charge.

A good place to start when you are considering a franchise is the SBA regional office nearest you. A phone call will bring you a copy of the basic pamphlet "SBA—What It Is. What It Does." Study it and visit your regional office to discuss with them your requirements.

You will find the SBA has both free and "for-sale" publications (minimum cost). The free publications include: *Management Aids For Small Manufacturers*—facts on significant developments in such fields as materials, processes, equipment and maintenance; *Small Business Bibliographies*—reference

sources for business owners and managers and prospective small businessmen; and *Small Marketers Aids*—guides for retail, wholesale, and service firms.

Among the "for-sale" publications are *Small Business Management Series*—booklets by recognized authorities in their fields on specific management subjects; *Starting and Managing Series*—booklets on general good practices in starting and managing a business, and other booklets on starting and managing specific kinds of businesses; *Small Business Research Series*—studies of small business problems.

Other services available to small businessmen via the SBA; SBA Loans, Economic Opportunity Loans, Economic Development Loans, Disaster Loans, Lease Guarantee Plan, Small Business Investment Companies, SCORE (Service Corps of Retired Executives), Management Courses, Conferences, Workshops, Clinics, Fogeign Trade, Technology Utilization, and Government Procurement Assistance.

A franchisee is a small businessman. Use the SBA to your benefit and profit, that's what its there for. Start today by contacting the regional office nearest you.

SMALL BUSINESS ADMINISTRATION
FIELD OFFICES

Agana, Guam
Albany, N.Y.
Albuquerque, N. Mex.
Anchorage, Alaska
Atlanta, Ga.
Augusta, Maine
Baltimore, Md.
Birmingham, Ala.
Boise, Idaho
Boston, Mass.
Buffalo, N.Y.
Casper, Wyo.
Charleston, W. Va.
Charlotte, N.C.
Chicago, Ill.
Cincinnati, Ohio
Clarksburg, W. Va.
Cleveland, Ohio
Columbia, S.C.
Columbus, Ohio
Concord, N.H.
Corpus Christi, Tex.
Dallas, Tex.
Denver, Colo.
Des Moines, Iowa
Detroit, Mich.
Eau Claire, Wis.
Elmira, N.Y.
El Paso, Tex.
Fairbanks, Alaska
Fargo, N. Dak.
Fresno, Calif.
Gulfport, Miss.
Harlingen, Tex.
Harrisburg, Pa.
Hartford, Conn.
Hato Rey, P.R.
Helena, Mont.
Holyoke, Mass.
Honolulu, Hawaii
Houston, Tex.
Indianapolis, Ind.
Jackson, Miss.
Jacksonville, Fla.
Kansas City, Mo.
Knoxville, Tenn.
Las Cruces, N. Mex.
Las Vegas, Nev.
Little Rock, Ark.
Los Angeles, Calif.
Louisville, Ky.
Lubbock, Tex.
Madison, Wis.
Marquette, Mich.
Marshall, Tex.
Memphis, Tenn.
Miami, Fla.
Milwaukee, Wis.
Minneapolis, Minn.
Montpelier, Vt.
Nashville, Tenn.
Newark, N.J.
New Orleans, La.
New York, N.Y.
Oklahoma City, Okla.
Omaha, Nebr.
Philadelphia, Pa.
Phoenix, Ariz.
Pittsburgh, Pa.
Portland, Oreg.
Providence, R.I.
Rapid City, S. Dak.
Richmond, Va.
Rochester, N.Y.
St. Louis, Mo.
Salt Lake City, Utah
San Antonio, Tex.
San Diego, Calif.
San Francisco, Calif.
Seattle, Wash.
Sioux Falls, S. Dak.
Spokane, Wash.
Springfield, Ill.
Syracuse, N.Y.
Tampa, Fla.
Washington, D.C.
Wichita, Kans.
Wilkes-Barre, Pa.
Wilmington, Del.

For addresses and telephone numbers of the field offices, look under "United States Government" in the appropriate telephone directories

APPENDIX D

SOURCES OF ADDITIONAL INFORMATION

Much has been written in the past ten years on the subject of franchising. Since the purpose of this book is to aid in the evaluation of a franchise opportunity, I have restricted this section to some of those sources that have direct bearing on the evaluation process. Most of the sources listed here have their own bibliography which can be consulted for information covering franchise operation, management, etc.

There is no attempt to list the numerous magazine articles. Your local library will probably have the most recent *Readers Guide To Periodic Literature* which will list under franchising all recent articles published.

ASSOCIATIONS

International Franchise Association, 1025 Connecticut Avenue, N.W., Washington, D.C. 20036.

BOOKS AND BOOKLETS

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PERIODICALS ABOUT FRANCHISING

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Franchise Journal, National Franchise Reports, and *Continental Franchise Review*, published by Continental Reports, Inc., 290 Fillmore St., Denver, Colorado 80206.

Income Opportunities, published by Davis Publications, Inc., 229 Park Avenue South, New York, N.Y. 10003.

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